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SUBJECT: FRANCE 2007 INVESTMENT CLIMATE STATEMENT

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¶1. Investment Climate Statement

Contents

¶A. French Investment Regime

Ensuring that France's investment climate is attractive to foreign investors is a stated priority for the French government, which sees foreign investment as a way to create jobs and stimulate growth. The 2005 debate in France over Qeconomic patriotismQ caused some observers to question the depth of this commitment. Nevertheless, investment regulations are simple, and a range of financial incentives for foreign investors are available. A

public and commercial establishment, the French Agency for International Investment (Agence Francaise pour les Investissements Internationaux Q AFII) integrates all offices responsible for promoting investment in France. The agency combines the overseas offices of the Invest in France Agencies (IFA), with the Invest in France Network (IFN) association.

Foreign investors say they are attracted to France by its skilled and productive labor force, good infrastructure, technology, and central location in Europe. EU membership, which mandates the free (with certain limitations) movement of people, services, capital and goods across the European Union, took on even greater significance with the introduction of Euro coins and bills in January 2002. However, despite considerable economic reform and market liberalization over the past decade, U.S. and foreign companies often point to high payroll and income taxes, over-regulation, rigid labor markets and occasional negative attitudes toward foreign investors as disincentives to investing in France.

A1. Openness to Foreign Investment

The Formal Investment Regime

The formal French investment regime remains among the least restrictive in the world. While there is no generalized screening of foreign investment, legislation passed at the end of 2005 dictates that acquisitions, irrespective of size or nationality, involving QsensitiveQ sectors are subject to prior approval by the Finance Minister ([http://www.legifrance.gouv.fr] Q search for the 31 December 2005 French Official Journal, decree 2005-

1739 of 30 December 2005). For investors from non-EU countries (or those who are not members of the European Common Market that have signed an administrative convention with France), protected sectors include: gambling activities, private security services, research, development or production of chemical or biological medicines, equipment for intercepting communications or eavesdropping, security services for computer systems, dual-use (civil and military) technologies; cryptology, firms that are repositories of defense secrets, firms that research, produce and sell

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military equipment, and lastly any other industry supplying the defense ministry any of the goods or services described above. The EU Commission has said it would study the December 2005 decree to ensure it is consistent with European Community law.

The decree also changes the triggers for Government of France (GOF) investment scrutiny for firms in the sensitive sectors. The prior decree required the GOF to review a proposed investment if it was above the threshold of 33% of the outstanding shares or voting rights. Now, the decree states that any investment that grants control of a firm, or surpasses the 33% threshold, or involves any part of any branch of any firm that has established headquarters in France, is subject to GOF review.

Authorities also consider the place of residence rather than the nationality of a potential investor. The place of residence of a corporate investor is determined by the location of its owners, without regard to place of incorporation. While firms owned or controlled by American citizens that are legal

residents in an EU country will usually be considered as EU residents, France will normally consider firms established or incorporated in other EU countries, and owned or controlled by American residents as non-EU residents.

To determine if non-EU investors control a firm, the French government looks at the residency of the headquarters (Qsiege socialQ) and the ability of non-EU investors to veto key management decisions or commercial ties (such as loans, guarantees, options, licenses, or contracts) that might effectively make the French company dependent on foreign investors. Firms with questions about their residency status should contact the Office of Foreign Investments at the following addresses:

Ministere de l'Economie, des Finances et de l'Industrie,
Direction Generale du Trisor et de la Politique Economique:

Multicom 2 - Services, Investissements et Propriete Intellectuelle
139, rue de Bercy
75012 Paris, France
Tel: (33)1 44-87-72-87

Service du Financement de L'Economie
FINENT 1 Epargne et Marchi Financier
139, rue de Bercy
75012 Paris, France
Tel: (33)1 40-04-04-04

Agence des Participations de lQEtat
139, rue de Bercy
75012 Paris, France
Tel: or (33)1 40-04-04-04

AFIIQs website (http://www.investinfrance.org/NorthAmerica in English) explains the basic regulations covering foreign direct investment. It provides a general framework on legal issues to help businesses in its "Doing Business in France" section. The website of the Paris Chamber of Commerce and Industry provides

French summaries of regulations applicable to foreign direct investment: (http://www.inforeg.CCIP.fr).

Informal Impediments to Foreign Investors

The January 1, 1999 introduction of the Euro as the single currency of the European Monetary Union (EMU), including France, has increased the competitive pressures on France to improve its domestic business and investment climate in order to promote growth and create new jobs. In addition, France has responded to a more competitive international investment climate by implementing some market-oriented economic reforms that increase the attractiveness of the French economy to foreign investors, and by offering a variety of investment incentives. Foreign investors also say they are attracted to France by its central location in Europe, highly skilled labor force, and good infrastructure. France is closing the gap with the U.S. and some other European countries in personal computer use and Internet access.

Yet, while today's foreign investors face less interference than before, after more than a decade of reforms, France has not entirely overcome a traditional preference for state intervention and a sometimes-reflexive opposition to foreign investment.

In some cases, this can be seen in labor organization opposition to acquisitions of French businesses by U.S. firms, often reflecting a perception that U.S. firms focus on short-term profits at the expense of employment. In other cases, French firms have stated a preference for working with French and European rather than U.S. firms. A degree of opaqueness in the privatization process (see below) can also aggravate suspicions about the equal treatment of foreign investors in publicly held firms.

The process of deregulation is far from complete and the state remains very involved in economic life. There is extensive regulation of business and labor markets. Also, the corporate tax rates are high in comparison to other leading industrial countries. Foreign investors most often cite complicated and pervasive labor regulation, high income and payroll taxes as the greatest disincentives to investing in France. In the case of labor market regulation, the impact on companies of the 35-hour legal workweek is mixed. Many companies used the transition to the 35-hour workweek as an opportunity to negotiate work-hour annualization programs with employees that allow for greater labor flexibility. Companies also benefited from a further cut in payroll taxes on low wages. On the negative side, the 35-hour workweek increased unit labor costs since total wages remained unchanged even though the number of hours worked declined. The government is taking measures to make the law less rigid and is seeking to introduce more flexibility in employment contracts (See D. Labor).

The French and U.S. business communities initially described France's new "social modernization law", passed in July 2001, as creating burdensome new obligations. The center-right government elected in 2002 selectively implemented the law through its power to implement by decree. In addition, the Government introduced a broad range of new investment promotion and competitiveness measures in 2005.

In making its decision on raising the minimum wage an average of 3.05% (effective July 2006), the Government sought to increase purchasing power and stimulate household consumption. Despite the increase in the minimum wage, base gross wages in the private sector are expected to increase at the same rate compared with last year (2.8%) as the high unemployment rate restrains wage demands.

The government decision to apply income tax cuts in 2007 should benefit the French economy, making France

a more attractive place for both French and foreign investment. Tax rates became a campaign issue before the 2007 presidential elections, and are likely to continue to divide politicians across the political spectrum.

The French have two social security taxes, the "Contribution Sociale Generalisee" (CSG) and the "Contribution au Remboursement de la Dette Sociale" (CRDS). U.S. contributors to the U.S. Social Security system do not pay these taxes. (Based on the "May 2 2001-377 ordonnance" to apply the 1408/71 EEC regulation, only "individuals who are subject to income taxes in France and contribute to the French social security system including health insurance pay CSG and CRDS". The related "circulaire d'application" was published in the May 20, 2001 "Bulletin Officiel du Travail, de l"Emploi et de la Formation Professionnelle" [http://www.travail.gouv.fr].

On December 8, 2004, the United States amended the income tax convention between the United States and France to avoid double taxation and prevent fiscal evasion; along with the estate and gift tax convention to avoid double taxation with respect to taxes on estates, inheritances and gifts [http://www.treas.gov/offices/tax-policy/treaties.shtml]. In December 2005, the French government ratified the two amendments, and they entered into force on December 21, 2006. The provisions resolve problems related to the double taxation of partnerships and estates. The U.S. Treasury provided a technical explanation in February 2006 [http://www.treas.gov/offices/tax-policy/treaties.shtml].

English summaries of labor and tax regulations applicable to foreign companies in France are available at the AFII's website [http://www.investinfrance.org/] and at the Paris Chamber of Commerce and Industries' website ([http://www.inforeg.CCIP.fr] search Qfiches pratiquesQ).

France's Privatization Program

The former Socialist-led government that took office in July 1997 returned to the private sector all or parts of the governmentQs stakes in a number of large companies, banks and insurance groups. U.S. firms showed interest in some of these sales. The current center-right government, elected in 2002, announced preliminary plans for further privatization, but the global slump in air transportation and equity markets put a brake in privatizations through the sale of shares. In 2003 and 2004 the government reduced its stakes in large companies such as Air France-KLM (to 44.6 from 54.0 percent), France Telecom (to 42.2 from 54.5 percent), Thales (formerly Thomson CSF, to 31.3 from 33.3 percent), Renault (to 15.6 from 26.0 percent), and Thomson (to 2.0 from 20.8 percent through TSA). Smaller projects, including the privatization of SAPRR (Paris-Rhin-Rhone highway company) and of the electricity company SNET, also were carried out. In the energy sector, the government sold shares in EDF and GDF, retaining a 85.3% stake in EDF and a 79% stake in GDF, but postponed the privatization of the nuclear power company, Areva. A December 7, 2006 law authorizes the reduction of the government stake in GDF to 33.33% from 70% to permit the merger of Gaz de France (GDF) and Suez. The deal is pending. After a long selection process in 2005, toll-road companies ASF, APRR and Sanef were privatized in 2006. The government reduced its stake in Aeroports de Paris to 67.5%. The government still has stakes in Bull and Safran (renamed after Sagem merged with Snecma), and controls 1,143 smaller firms in a variety of sectors. Privatization is an issue for the candidates in the 2007 presidential elections. In public

pronouncements, center-right politicians generally are supportive of further privatization while politicians on the left are opposed.

Sales of government interests are conducted either through market-based public offerings or, more often, through an off-market bidding process. In both cases, key decisions are made by the Ministry of Economy, Finance and Industry on the advice of the quasi-independent "Commission des Participations et des Transferts" (formerly known as the Privatization Commission). Both consider the financial and business plans submitted by bidders. There is a strict legal and procedural process regulating these

decisions, but the confidential nature of off-market sales can raise suspicions about the equal treatment of foreign versus French bidders. This can have a chilling effect on foreign investment. In the past, a policy of selling former holdings to "core" shareholders in an effort to avoid the splitting-up of companies or sales of sensitive state assets to foreign investors also hampered market efficiency and tended to favor French firms.

When privatizing state-owned firms either through off-market placements or market-based offerings, the 1993 privatization law gives the French government the option to maintain a so-called "golden share" to "protect national interests." This provision is not targeted at foreign companies and has not been a part of every privatization process. A golden share gives the government three legal rights:

-- To require prior authorization from the Ministry of the Economy, Finance and Industry for any investor or group of investors acting in concert to own more than a certain percentage of a firm's capital. The thresholds would apply to all investors;

-- To name up to two non-voting members to the firm's board of directors; and

-- To block the sale of any asset to protect "national interests." Assets could include shares, but also buildings, technology, patents, trademarks, and any other tangible or intangible property.

The French Government will have to reconsider its use of golden shares in future privatization operations following the June 2002 European Court of Justice's decision to reaffirm the basic principle of free movement of capital in the EU. The Court stated that the use by some EU countries, including France, of golden shares was a serious impediment to that principle. Nonetheless, the December 7, 2006 law related to the energy sector includes the possibility for the government to keep a golden share in Gaz de France (GDF) to oppose any measure that might jeopardize the security of energy supplies. The Government has also considered retaining a golden share in the privatization of Areva due to loopholes in the court's decision. ArevaQs chairman has stated that the golden share could be consistent with EU requirements.

French Government Participation in R&D Programs

Total annual R&D expenditures in France represent 2.13 percent of GDP (2005 figures). The French government (GOF) contributes 0.81 percent of GDP to R&D and the industrial sector 1.32 percent. The GOF decided to increase public spending for research by an additional one billion euros annually from 2005 to ¶2007. The GOF confirmed in 2006 its intent to increase total R&D spending to 3 percent of GDP by 2010 (consistent with the EUQs QLisbon agendaQ goals), with two percent coming from the private sector. The French government relies on increased tax credits and incentives for the development of new investment structures to boost industrial research.

The GOF completed in 2006 an ambitious effort to reform its R&D strategy, organization, evaluation, and funding. The new system attempts to inculcate competition for government-funded research and embrace the university system. The Research and Innovation Bill, adopted in April 2006, reinforces science-industry relations and promotes greater

strategic direction. The new legislation provides for a High Council for Science and Technology, a National Research Agency, numerous Qcompetitiveness clusters,Q and an Industrial Innovation Agency. Private enterprise will benefit from more flexible working arrangements with government scientists, as well as by receiving R&D tax incentives. The GOF also supports partnerships between public research agencies and universities within the framework of QResearch and Higher Education Hubs,Q and QAdvanced Research Thematic Foundations,Q two new types of cooperation.

The GOF sponsors R&D and technology development programs at three different levels:

¶1. International/European programs (e.g. ESA, CERN, EUREKA, EU Framework program);

¶2. Technology development programs in the private sector (approx. 45 percent of R&D expenditures are funded by the French government), with specific programs to encourage transfer of research and to aid small and medium firms; and

¶3. National research programs (mostly administered by the Research Ministry), with specific emphasis given to health and biotech (fight against cancer, research on aging and handicaps, focus on new epidemics, genomics/genetics); resource management (including food resources, food safety, water management), sustainable development and the fight against greenhouse gases (research on new sources of energy, clean vehicles, energy storage and use of hydrogen, nuclear systems and nuclear fusion); information and communication technologies; nanotechnologies; and space.

The public budget for Higher Education and R&D is 21.6 billion euros in 2007, 3.44 percent above 2006 levels. The 2007 Higher Education and Research budget by research theme is as follows:

Life sciences: 21 percent
Social and Human sciences: 15 percent
Space/Defense: 14 percent
Math, Physics, Chemistry: 12 percent
Environment: 12 percent
Information and Communication Technologies: 9 percent
Energy: 6 percent
Industrial Production and Technologies: 9 percent
R&D for Developing Countries: 2 percent

For access to R&D subsidies, the French government provides national treatment to foreign companies registered in France.

Visas, Work Requirements

The government of France requires that foreign citizens complete extensive procedures if they wish to work in France. The requirements are essentially the same whether foreign citizens work for French or foreign-controlled firms. Non-EU nationals who intend to work or conduct any commercial activity in France must receive a long-term visa and a work permit (Carte de travail) or business permit (Carte de commercant - foreign trader's card) before establishing residence in France. Information can be obtained from French consulates in the United States. The web address is [http://www.info-france-usa.org/intheus/consulates.asp]. For more information on the foreign trader's card, please consult the Invest in France agency Web site at:

[http://www.investinfrance.org/France/Living/Expatriate/?p=formalities&=en]. For more information on other types of visas and applicable fees, contact your local Consulate General of France. In addition, a foreigner's ability to practice a profession may be curtailed by government regulation and the regulations of French professional associations. For example, lawyers seeking to practice in France must become members of the French bar before they can practice any type of law under their own names. This requires passing the bar examination in French. A number of legislative changes to these regulations are under consideration.

A2. Conversion and Transfer Policies

All inward and outward payments must be made through approved banking intermediaries by bank transfers. There is no restriction on repatriation of capital. Similarly, there are no restrictions on transfers of profits, interest, royalties, or service fees. Foreign-controlled French businesses are required to have a resident French bank account and are subject to the same regulations as other French legal entities. The use of foreign bank accounts by residents is permitted.

France has little effective foreign exchange control regulation. For exchange control purposes, the French government considers foreigners as residents from the time they arrive in France. French and foreign citizens are subject to the same rules. Residents are entitled to open an account in foreign currency with a bank established in France and to establish accounts abroad. Residents must report the account number for all foreign accounts on their annual income tax returns. French-source earnings may be transferred abroad.

As part of the international effort to combat money laundering and the financing of terrorism, France's banking regulations have undergone several changes, which affect the handling of checks, as recommended by the Financial Action Task Force. Additional changes are expected. France sometimes uses its powers under national law to freeze assets of terrorists, operating within EU structures.

A3. Expropriation and Compensation

Under French law, private investors are entitled to compensation if their properties are expropriated, and such compensation must be adequate and paid promptly. In France's bilateral investment treaties, the French government promises to provide both prompt and adequate compensation. There have been no recent disputes involving expropriation of U.S. investments.

A4. Dispute Settlement

There have been few major disputes involving established U.S. firms in recent years. Government decisions in investment cases can be appealed to administrative tribunals and ultimately to the Council of State (Conseil d'Etat). The rights of U.S. investors are also protected by the U.S.-French bilateral convention (see Section B below).

The judicial system is independent. Property and contractual rights are enforced by the French civil code. Judgments of foreign courts are accepted and enforced by courts in France once they have been "declared executor" by a French judge through "executor" proceedings (Art. 2123 of the French Civil Code and Art. 509 of the Civil Procedure Code). However, in some civil cases and in bankruptcy cases, foreign judgments are recognized and enforced by French courts without executor proceedings.

France is a member of the World Bank's International Center for the Settlement of Investment Disputes

(ICSID Q [http://www.worldbank.org/icsid]). In addition, in most of its bilateral investment treaties (BIT's) France has agreed to accept binding arbitration to resolve investor-state disputes. However, most of France's BIT partners are developing countries whose investors have few investments in France. (See below).

A5. Performance Requirements and Incentives

Investment Incentives

France offers a range of financial incentives to foreign investors. The following information reflects incentives as they existed at time of this writing. The government has a broad range of investment and competitiveness measures in the legislative pipeline.

France's domestic planning and investment promotion agency, DATAR (Delegation a l'Amenagement du Territoire et a l'Action Regionale) was renamed DIACT (Delegation Interministerielle a lQAmenagement et la Competitivite des Territoires) in December 2005. It has a broad mandate, including increasing the QattractivenessQ of France for foreign investors and assisting potential investors. In addition, financial subsidies and tax incentives are offered at the local, regional and national government level to attract investment to France's less affluent areas. Incentives are available equally to French and foreign investors and eligibility requirements are the same.

Within the French government, foreign investment promotion is the responsibility of the AFII "Invest in France Mission" headed by an ambassador-at-large, who is based at the Ministry of the Economy, and backed up by DIACT. DIACT maintains offices throughout France and around the world to seek out and advise potential investors on project development, site selection, investment incentives (the largest of which are administered by DIACT) and administrative and legal requirements. DIACT's overseas offices were re-named "Invest in France Agencies" (IFA -- IFANA in North America) in 2001. There are three DATAR/IFANA offices in the United States:

Northern and Eastern States

IFANA New York
810 Seventh Avenue, Suite 3800
New York, NY 10019
Tel: (212) 757-9340
Fax: (212) 245-1568

Western and Southern States

IFANA San Francisco
88 Kearny Street, Suite 700
San Francisco,
CA 94108
Tel: (415) 781 0986
Fax: (415) 781 0987

Midwestern States

IFANA Chicago
205 North Michigan Avenue, Suite 3750
Chicago, IL 60611

Tel: (312) 628-1054
Fax: (312) 628-1033

AFIIQs internet address is [http://www.InvestinFrance.org]. DATARQs site,

[http://www.datar.gouv.fr/] or

[http://www.DIACT.gouv.fr].

The primary investment incentive offered through DIACT is the Prime d'Amenagement du Territoire (PAT). DATAR has revised downward the PAT program at the European Commission's request. Nonetheless, PAT incentives remain generous for investment in disadvantaged zones (parts of north and central France, and Corsica). The government defined a new list of eligible zones for the 2007-2013 period. The current PAT system requires job creation from investors (see Performance Requirements), but its subsidies can be generous. PAT may also be collected by firms that maintain employment when the investment is significant. The system is even more flexible for small and medium sized companies. New rules will be issued when the European Commission gives its approval. Other investment incentives may also be available. Potential investors should consult DIACT and AFII to determine the full range of possibilities, including:

-- Research and development project grants, notably for businesses located in competitiveness clusters

-- Special tax treatment for company headquarters

-- Local and regional tax holidays and special subsidies

-- "Industrial conversion" zones featuring tax breaks and grants for job-creation

-- Special access to credit for small and medium-sized enterprises

-- Assistance for training, including a portion of wages paid to employees in training.

Besides DIACT/IFA at the national level, several French cities and regions have developed their own investment promotion agencies that advise potential investors, offer administrative assistance, and oversee investment incentives. The February 2002 Local Democracy Law ("Democratie de proximite" (http://www.legifrance.gouv.fr]) gives regional councils ("Conseils Regionaux") full powers to establish (without decree or national convention) schemes for direct aid to companies (subsidies, reduced interest rates on loans, and advances). Each "Conseil Regional" has it own website, which can be found with any internet search engine using "conseil regional" and the name of the appropriate region.

All incentives are covered under regulations set by the European Commission.

Performance Requirements

Other than those linked to incentives, there are no mandatory performance requirements established by law. However, the French government will generally require commitments regarding employment or research and development from both foreign and domestic investors seeking government financial incentives.

For example, to be eligible for DIACT grants, the French government usually requires that firms, whether owned by EU or non-EU residents, create a minimum of 15 jobs within the first three years. As noted above, PAT and R&D subsidies are based on the number of jobs created. In addition, the authorities have occasionally sought commitments as part of the approval process for acquisitions by foreign investors.

Nonetheless, foreign firms need the French government's approval on a variety of regulatory issues, and in France, officials generally have much wider discretion than their U.S. counterparts. This can leave firms subject to "unwritten" performance requirements, with regulatory officials making it known that a firm's request would be more favorably

viewed if it increased employment, R&D, or exports.

A6. Right to Private Ownership and Establishment

The French government maintains legal monopolies in the following sectors: postal services (La Poste), national rail transportation (SNCF), Parisian bus and metro services (RATP), and tobacco manufacturing and distribution (Altaldis Q former Seita). The electricity and gas Companies (EDF/GDF) no longer have monopolies on production, distribution and sale of electricity and gas. Market opening in Europe has surpassed 37 percent (by volume) of the electricity market and 70 percent of the gas market -- meaning that that proportion of consumers are free to choose another supplier, although few have. In July 2004, the option to switch suppliers was opened to all commercial customers. After a critical piece of energy sector reform legislation passed that same month, the first public sales of shares for EDF and GDF began in 2005, leading effectively to a partial privatization of the two companies.

A7. Protection of Property Rights

On August 1, 2006, France passed new legislation on digital copyright(Law on Authors' Rights and Related Rights in the Information Society) designed to implement a 2001 EU Copyright Directive as well as the WTO TRIPS agreement on Intellectual Property. However, due to the numerous amendments added during the legislative process, this new copyright law goes far beyond its original intent. The law strongly penalizes illegal downloading with a prison sentence of up to five years in prison and 500,000 euro fine. However, the new law also mandates interoperability of digital rights management (DRM) systems by requiring sellers of online digital content and manufacturers of digital entertainment devices to provide information about proprietary DRM technologies to competitors if this information is needed to guarantee interoperability. To enforce that interoperability, the new law establishes a new Regulatory Authority which has the power to demand proprietary information from companies. The U.S. Government has repeatedly expressed concern over this provision, which could undermine IPR protection and diminish incentives for innovation.

Nevertheless, France is a traditionally strong defender of intellectual property rights and has highly developed protection for intellectual property. Under the French system, patents and trademarks protect industrial property, while literary/artistic property is protected by copyrights. By virtue of the Paris Convention and the Washington Treaty regarding industrial property,

U.S. nationals have a "priority period" after filing an application for an U.S. patent or trademark in which to file a corresponding application in France. This period is twelve months for patents and six months for trademarks.

A8. Transparency of the Regulatory System

The French government has made considerable progress in recent years improving the transparency and accessibility of its regulatory system. Government Ministers, companies, consumer organizations and trade associations may petition the Unfair Competition Council to investigate anti-competitive practices.

Of most concern to foreign companies has been standards setting. With standards different from those in the U.S., rigorous testing and approval procedures must sometimes be undertaken before goods can be sold in France. Where EU-wide standards do not exist, specific French standards apply. The United States and the EU have negotiated mutual recognition agreements covering the testing and certification of

certain specified regulated products. Information about these agreements and efforts to extend them can be found at the website of the Trans-Atlantic Business Dialogue, [http://www.tabd.com/]. The National Institute of Standards and Technology, [http://www.nist.gov/], is represented at the International Bureau of Weights and Measures, [http://www.bipm.fr/], located in Sevres, France, and may be of assistance to firms.

Industry associations have an influential role in developing both government policies and influencing self-regulatory organizations. U.S. firms may find it useful to become members of local industry groups. Experience has shown that even "observer" status can offer U.S. firms an insight into new investment opportunities and greater access to government-sponsored projects, even if U.S. firms sometimes feel they are not always given an adequate opportunity to participate in the determination of regulations.

A9. Efficient Capital Markets and Portfolio Investment

Access to Capital and Capital Markets

France has an open financial market that allows firms easy access to a variety of financial products in both French and international markets. As markets expand, foreign and domestic portfolio investment has become increasingly important. France continues to modernize its marketplace, introducing tax-advantaged retirement funds in 2004. Facing the prospect of increasingly tough competition with other European marketplaces following the introduction of the Euro, French financial markets are continually updating and adapting their products, procedures and services.

France is actively involved in the effort to create a system of internationally accepted accounting standards (to learn more, go to [http://www.iasb.org.uk/] or search the SEC's website at [http://www.sec.gov/]. Most EU listed companies were required to use international accounting standards from 2005. French market and banking regulators enhanced and developed cooperation with their foreign counterparts. Some aspects of French legal, regulatory and accounting systems may not be as transparent as U.S. systems, but they are consistent with international norms.

Commercial banks offer all classic financing instruments, including short, medium, and long-term loans, short-and medium-term credit facilities, and secured and non-secured overdrafts. Commercial banks also assist in public offerings of shares and corporate debt, mergers, acquisitions and takeovers. Banks offer hedging services against interest rate and currency fluctuations. France has 161 foreign banks including 57 non-EU banks (some with sizable branch networks) with total assets accounting for around 10% of total bank assets at the end of 2005. Foreign companies have access to all banking services. Although some subsidies are available for home mortgages and small business financing, most loans are provided at market rates.

Increasingly, firms in France are bypassing banks and going directly to financial markets for their financing needs. The center of the French market is the Euronext stock exchange. Euronext N.V., a holding company incorporated under Dutch law, was formed on 22 September 2000 when the exchanges of Amsterdam, Brussels and Paris merged. The Euronext group expanded at the beginning of 2002 with the acquisition of LIFFE (London International Financial Futures and Options Exchange) and the merger with the Portuguese exchange BVLP (Bolsa de Valores de Lisboa e Porto). As of December 2006, Euronext listed 1,210 companies (of which 300 are foreign excluding countries members of Euronext), with a total

capitalization of USD 2.8 billion. In February 2005, Euronext Paris merged the three separate markets of the Paris exchange, the cash market (QMarche au ComptantQ), the regulated market (QSecond MarcheQ) and the QNouveau MarcheQ (growth segment) on which new companies, especially smaller ones with an emphasis on growth and technology, can raise start-up capital. The new market list (QEurolistQ) was split in three segments based on the capitalization of companies (150 million euros, 150 million to 1 billion euros, and more than 1 billion euros). The changes are aimed at improving liquidity and visibility of small- and medium-sized companies. A financial futures market, the "Marche a Terme des Instruments Financiers," commonly known as the MATIF, trades standard contracts on interest rates, short- and long-term bonds, stock market indices, and commodities. It has established linkages with its German and Swiss counterparts as well as with the Chicago Mercantile Exchange. Options are traded on the "Marche des Options Nigociables de ParisQ (MONEP) exchange, operated by Euronext. Finally, though not nearly as developed as in the United States or the United Kingdom, venture capital markets (QMarche LibreQ and QMarche de gre a greQ) have become increasingly important ways for start-up firms to raise capital. In 2005, Euronext created a market, QAlternext,Q to offer companies a new unregulated market (based on the legal definition of the European investment services directive) with more consumer protection than the QMarche Libre,Q which will continue to operate. Euronext is in the process of merging with the New York Stock Exchange. The deal should be settled in the first quarter of 2007. The merger will increase international exposure to the European exchange and reduce trading fees, which should attract more investors.

Foreigners hold more than 45% of the capital of publicly traded French companies. For a foreign company incorporated in an OECD country to be listed on the Euronext stock exchange, it must be sponsored by a French bank or broker. It must also prepare a

French language prospectus to get a permit from "Autorite des Marches Financiers - AMF,Q the French equivalent of the SEC. Foreign companies are authorized to provide statements in English and a short summary in French. Since July 1, 2005, France has applied European regulation 809-2004 that details the content of prospectuses. An application to the AMF must include a summary in French or any other language commonly used in financial issues that describes "essential information related to the content and modalities of operations" as well as to the "organization, financial situation and development of the activity of the company". Details may be found on the AMF web site [http://www.amf-france.org], which merged with the COB web site [http://www.cob.fr].

The sponsoring bank or broker is responsible for placing the securities with investors when the securities are listed and for acting as a market maker. More information is available on the Paris Stock Exchange website, [http://www.euronext.com].

Cross-Shareholding

An intricate network of cross-shareholdings among French corporations has often been seen as a barrier to foreign acquisition of French firms. Often, two French companies will each own a significant share of the other. This system, which was traditionally a means to help ensure state-control of the economy, has weakened in recent years under the pressure of the marketplace.

Mergers and Acquisitions

Although French laws regarding takeovers do not discriminate against foreign investors, a hostile

takeover in France by a foreign investor could face public and even official scrutiny. Provisions of the company takeover law are designed to limit hostile takeovers of publicly traded companies. For example, with the new regulation, passed by the Parliament on December 15, 2005, stockholders are required to notify company management and AMF when they have decided to prepare a takeover. France extended its public offering rules by imposing some additional obligations on investors taking control of a company listed on a French market depending on the level of voting rights in the targeted company and the nature of the proposed acquisition.

In transposing the European takeover directive, France has tried to reconcile its objectives of reestablishing its credentials as an investor-friendly country, while allowing companies to defend themselves against Qpredators.Q French companies may suspend implementation of a takeover if they are targeted by a foreign company that does not apply reciprocal rules. The government also introduced an amendment allowing a U.S.-style Qpoison pillQ takeover defense, including granting existing shareholders and employees the right to increase their leverage by buying more shares through stock purchase warrants (Qbons de souscription dQactions - BSAQ) at a discount in case of an unwanted takeover. New provisions include a reform of AMF supervisory procedures. Procedures cover declaration of conformity, offer price, declaration of a bid in relation to takeover rumors and nomination of an independent appraiser when conflicts of interests exist [http://www.amf-france.org/documents/general/7341_1.pdf].

A10. Political Violence

Occasionally anti-American sentiments, particularly by those who see themselves as threatened by U.S. policies, result in demonstrations against U.S. investments. That said, such incidents are rare. France is one of the world's leading democracies and a founding member of the EU; there is little danger of insurrection, belligerent neighbors, or widespread civil disturbances. Perceived discrimination and a lack of economic opportunity contributed to disturbances that affected poorer largely Muslim suburbs of FranceQs largest cities in late 2005 and early 2006. Most observers believe the unrest was fanned by small groups of youths looking for trouble, and incidents of violence have largely dissipated. Moreover, since the terrorist attacks of September 11, 2001, there have been relatively fewer anti-American demonstrations in France as compared to prior years.

A11. Corruption

France has laws, regulations and penalties that effectively combat acts of corruption committed in France. A 1993 law established a Central Service for the Prevention of Corruption under the aegis of the Ministry of Justice. The French judiciary is responsible for prosecution, and is active in doing so.

French magistrates have for the first time in December 2006 launched a probe against officials from French oil company Total for the bribery of foreign civil servants, a criminal offence in France since 2000, when the GOF ratified the OECD Anti-Bribery Convention and enacted implementing legislation to enforce its provisions. The OECD Anti-Bribery Conventions are enforced via amendments to the Criminal code, which have been integrated into Articles 435-3 and 435-4 of a new chapter on international corruption (Chapter V, Title III, Book IV). Article 435-3 incriminates the offer or promise of a bribe, but not the actual payment of a bribe, which is explicitly mentioned in the convention.

Furthermore, there is a difference in the treatment of victims of bribery, depending on whether the bribery is domestic, EU or foreign. In cases of bribery of GOF/EU officials, any victim may initiate prosecution. In cases involving the bribery of other foreign government officials, criminal proceedings may be initiated only by the public prosecutor on the basis of a complaint from a Government official in the country where the bribery took place.

The OECD Anti-Bribery convention is further enforced via amendments to the Tax Code and to the Code of Criminal Procedure. Article 39-2 of the French Tax Code puts an end to the tax deductibility of bribes as of the entry into force in France of the Convention (September 29, 2000). Finally, Article 706-1 of the amended Code of Criminal Procedure provides that acts criminalized by the OECD Convention will be prosecuted in the Economic and Financial Unit of the Paris Court of Justice.

France has also begun ratification of the Council of EuropeQs civil and criminal conventions on corruption. The procedure should be completed by the end of February 2007.

There have been no specific complaints from U.S. firms of unfair competition or investment obstacles due to corrupt practices in France in recent years.

More information on the international fight against corruption can be found at the Internet site of Transparency International [http://www.Transparency.org]. According to Transparency InternationalQs French Chapter, the sectors most affected by corrupt practices tend to be public works and the defense industry.

¶B. Bilateral Investment Agreements

1959 U.S.-France Convention on Establishment

U.S. investment in France is subject to the provisions of the Convention on Establishment between the United States of America and France, which was signed in 1959 and is still in forcQ Some of the rights it provides to U.S. nationals and companies include:

-- The right to be treated like domestic nationals in all types of commercial activities including the right to establish offices and acquire majority control of French firms, and in obtaining and maintaining patent and trademarks. (This right does not apply to firms involved in communications, air transportation, water transportation, banking, the exploitation of natural resources, certain "professions," and the production of electricity) ;

-- The right to receive the best treatment accorded to either domestic nationals and companies or third country nationals and companies with respect to transferring funds between France and the U.S.;

-- The requirement that property may only be expropriated for a public purpose and that payment must be just, realizable and prompt.

The treaty does not apply to the use or production of fissionable materials, arms or any materials that are used directly or indirectly to supply military establishments. The treaty does not prevent application of measures necessary to protect essential security interests.

Bilateral Investment Treaties

Investments in France by other EU member states are governed by the provisions of the Treaty of Rome and by Union Law. France has also signed Bilateral Investment Treaties (BITs) with the following 81 countries: Albania, Algeria, Argentina, Armenia,

Azerbaijan, Bangladesh, Bolivia, Bulgaria, Chile, China, the Democratic Republic of the Congo, Costa Rica, Croatia, Cuba, Czech Republic, Ecuador, Egypt, El Salvador, Equatorial Guinea, Estonia, Ethiopia, Georgia, Guatemala, Haiti, Hong Kong, Honduras, Hungary, India, Indonesia, Iran, Israel, Jamaica, Jordan, Kazakhstan, Korea (South), Kuwait, Kyrgyz Republic, Laos, Latvia, Lebanon, Liberia, Lithuania, Macedonia, Malaysia, Malta, Mauritius, Moldavia, Mexico, Mongolia, Morocco, Nepal, Nicaragua, Nigeria, Oman, Pakistan, Panama, Paraguay, Peru, Philippines, Poland, the Dominican Republic, Qatar, Romania, Russia, Singapore, Slovakia, Slovenia, South Africa, Sri Lanka, Sudan, Syria, Trinidad and Tobago, Tajikistan, Tunisia, Turkmenistan, Ukraine, United Arab Emirates, Uruguay, Uzbekistan, Vietnam, Yemen, and the former Federal Republic of Yugoslavia.

Bilateral Investment Treaties signed with the following 12 countries have not yet been ratified: Bahrain, Bosnia, Brazil, Belarus, Ghana, Libya, Madagascar, Mozambique, Namibia, Uganda, Zambia and

Zimbabwe.

French BITs generally cover the following:

-- Just and equitable treatment that is no less favorable than that accorded to domestic investors or the most favored investor from a third country;

-- Restrictions on expropriation of investments, and requirements that, in the case of expropriation, compensation is prompt and adequate;

-- Free transfers;

-- The ability to resolve investor-state disputes through binding international arbitration.

¶C. OPIC and Other Investment Insurance Programs

Given France's high per capita income, investments in France do not qualify for investment insurance or guarantees offered by the Overseas Private Investment Corporation (OPIC). Further information can be found at [http://www.opic.gov].

¶D. Labor

France's private sector labor force is one of the country's strongest points in attracting foreign investment, combining high quality with relatively competitive unit-wage costs compared with those of other industrialized countries.

The labor code sets minimum standards for working conditions including the workweek, layoffs, overtime, vacation and personal leave. In October 2006, the GOF drafted a bill on "Social Dialogue" which, if approved by Parliament, would call for mandatory preliminary negotiations between French employee and employers' unions prior to any modification of the Labor Code. The bill could be adopted by the end of February 2007.

France recently adopted an employeesQ shareholding law (QLoi sur la ParticipationQ), which involves some changes in the labor code. The law encourages the purchase of shares by employees, employeesQ savings accounts, and better representation of employees as shareholders. Employees in large companies who are laid off for economic reasons may benefit from Qmobility leaveQ which involves training, short-term contracts, or transfer to another company within a pole of competitiveness. A new Qtransport allowanceQ will benefit employees who commute using public or private
transportation.([http://www.legifrance.gouv.f r] Q search the 31 December 2006 French Official Journal Q law 2006-1770 of 30 December 2006).

Other labor standards are contained in collective agreements, which are usually negotiated by sector on a national or regional basis by the various trade union federations and employers' associations. French absenteeism is modest by European standards, and in the private sector peaceful labor relations generally prevail.

While the rate of unionization in France has steadily declined to a little more than half that of the United States, French labor law provides an extensive institutional role for employee representatives and for organized labor.

-- In companies with more than 10 employees,

employee delegates are elected for a one-year term. They are authorized to present individual or collective claims and grievances relating to working conditions, to inform government labor inspectors of any complaints under the labor law, and to concur with management in any reorganization of the workweek. Management is required to meet with employee delegates at least montQy.

-- A company with more than 50 employees must have a joint management/employee enterprise committee, to which employee representatives are elected. The committee must be consulted for all major corporate decisions, but has no veto. The enterprise committee must be provided with the same information that is made available to shareholders. It is funded by the company at a rate equal to at least 0.2 percent of the firm's payroll, and uses this money to finance social and cultural activities for the benefit of employees.

-- Workers also hold most slots on occupational health and safety committees, which are mandatory in medium and large size companies. Labor tribunals (playing a role largely equivalent to the NLRB in resolving labor disputes) are comprised of equal numbers of union and employer representatives. Appeals are possible to the level of the QCour de Cassation,Q one of France's high courts.

Due to a variety of macro and microeconomic factors, including high payroll taxes, a high minimum wage, and rigid labor laws, French businesses tend to use less labor-intensive procedures and rely more on labor saving technology than businesses in other countries. This is one reason for France's high unemployment rate.

Most of the candidates for the 2007 Presidential elections have called for a modification of the 35-hour workweek, so further change in this area is likely.

¶E. Foreign Free Trade Zones/Ports and Competitiveness Clusters

France is subject to all European Union free trade zone regulations and arrangements. These allow member countries to designate portions of their customs territory as free trade zones and free warehouses in return for commitments in favor of employment. France has taken advantage of these regulations in several specific instances. The French Customs Service administers these zones and can provide more details. Customs can be contacted at the finance ministry web address: [http://www.douane.gouv.fr] use search to find information about Qzones franchesQ)]. France has designated 85 trade zones, including 14 new zones in 2006.

In addition, the French government has renewed the tax exemption program for five years, until December 31, 2011, in the existing urban "enterprise zones" (Zones Franches Urbaines). Since January 2004, all such zones benefited from tax exemptions on corporate tax, payroll taxes, professional tax and real estate

tax. Related information is notably available at the City Government web site [http://www.ville.gouv.fr].

More information on enterprise and investment zones is available from various sources: [http://www.zones-franches.org] [http://www.InvestinFrance.org] [http://www.diact.gouv.fr] [http://www.oseo.fr] for assistance to small and medium sized companies.

In March 2006, the government approved 66 competitiveness clusters including 10 for projects with international ties and 6 with related missions. Poles are designed to reinforce innovation and encourage innovative businesses to remain in France. They will benefit from income and social tax exemptions [http://www.competitivite.gouv.fr]. Clusters involved in research and innovation will also benefit from financial support from the state-owned investment bank Caisse des Depots.

¶F. Foreign Investment Statistics

Foreign investment represents a significant percentage of production in many sectors. Rapid growth in the new technologies sector has given way to renewed growth in traditional sectors: automobiles, metalworking, aerospace, capital goods, consultancy and services. France has remained one of the main destinations of foreign direct investment (FDI). Foreign investment inflows more than doubled in 2005 to 3.0 percent of GDP (versus 1.2 percent in 2004). Based on preliminary information the U.S. remained one the largest sources of FDI in France. Using Bank of France balance of payments data based on the historical book value of investment, U.S. firms accounted for 19.5 percent in 2004 (versus more than 20% in previous years) of the stock of foreign investment.

Using the book value instead of the market value of investments tends to underestimate the value of U.S. investment in France. This is because investments by U.S. companies tend to be considerably older than other countries' investments and because U.S. firms often finance expansions and acquisitions on domestic French capital markets or through subsidiaries in third countries. Thus, much U.S. investment in France is not recorded in balance of payments statistics, even though it may ultimately be controlled by U.S. citizens. The December 30, 2005 decree 2005-1739 on financial relations with foreign countries defines foreign investment operations that have to be notified to the Bank of France for the establishment of the balance of payments and FranceQs external position. Firms with questions should contact the Bank of France at the following address:

Banque de France
Service de la Balance des Paiements
31, rue Croix-des-Petits Champs
Tel: 01.42.92.42.92

Correcting for statistical biases, and including the value of U.S. holdings of French stocks, the market value of the stock of U.S. investment in France may be as much as five times the USD 60.9 billion book value for 2005 reported in U.S. Department of Commerce data ([http://bea.gov] search in International). About 2,000 affiliates of U.S. firms are established in France. Around 603,000 jobs result from U.S.-originated investments.

Today, foreign-controlled firms play a significant role in France's economy, accounting for 15 percent of capital expenditures, 30 percent of exports, and 17 percent of value added.

An updated list of U.S. investors may be found on [http://www.investinfrance.org/NorthAmerica/YourProject/Database/?l=en]

Lists of foreign investors by industry can be found

in local periodicals such as Expansion ("Les 1000 de l'Expansion": [http://www.lexpansion.com/PID/7800.html]). The Expansion link provides useful information on the first 1000 companies and financial institutions established in France.

Stock by country of origin (Book value) (USD billions)

	2003	2004	2005
EU (25)	348	422	n.a.
EU (12) of which	291	321	n.a.
Netherlands	82	94	n.a
Germany	58	72	n.a.
Belgium	58	67	n.a.
Luxemburg	32	41	n.a.
Italy	15	20	n.a.
Other EU (15)	82	94	n.a.
Of which			
UK	74	88	n.a.
Sweden	6	7	n.a.
New EU	0	0	n.a.
Other Industrialized countries	109	130	n.a.
Of which			
USA	64	72	n.a.
Switzerland	27	36	n.a.
Canada	5	6	n.a.
Japan	9	11	n.a.
Other countries	17	16	n.a.
Total	475	569	n.a.
Total as percent of GDP	25.2	27.4	n.a.
(Exchange rate:)			
USD 1.00 equals Euro	0.88	0.80	

Source: Bank of France

Stock of Foreign Investment in France (Market value) (USD billions)

	2003	2004	2005
Total	623	774	922
Total as percent of GDP	42.7	41.1	47.5
(Exchange rate:)			
USD 1.00 equals Euro	0.88	0.80	0.80

Source: Bank of France

Stock by Industrial Sector of Origin (Book value)(USD billions)

	2003	2004	2005
Real estate	255	309	n.a.
Financial Intermediation	74	86	n.a.
Of which holdings	31	34	n.a.
Manufacturing	86	105	n.a.
Of which			
-Automobiles	9	10	n.a.
-Chemical industry	25	30	n.a.
Other	60	69	n.a.
Total	475	569	n.a.
(Exchange rate:)			
USD 1.00 equals Euro	0.88	0.80	

Source: Bank of France

Flows by country of origin (Market value) (USD billions)

	2003	2004	2005
EU (25)	31	30	46
EU (12)	26	19	38
of which			
Germany	2	5	7
Belgium	10	3	6
Italy	0	2	1
Netherlands	4	0	7
Other EU (15)	5	10	8
of which			
UK	4	8	8
Denmark	0	1	0
Sweden	0	0	0
New EU members (1)	0	0	0
Other Industrialized Countries	10	9	15
Of which			
USA	3	6	12
Canada	5	-0	-1
Japan	1	0	0
Switzerland	1	1	2
Other countries	2	-7	3
Total	43	32	64
Total as percent of GDP	2.2	1.5	3.0
(Exchange rate:)			
USD 1.00 equals Euro	0.88	0.80	0.80

Source: Bank of France
(1) Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Czechoslovakia, Slovakia, and Slovenia.

Stock by country of destination (Book value) (USD billions)

	2003	2004	2005
EU (25)	383	477	n.a.
EU (12)	269	336	n.a.
of which			
Germany	48	68	n.a.
Belgium	72	81	n.a.
Italy	24	28	n.a.
Netherlands	70	88	n.a.
Other EU (15)	103	124	n.a.
Of which			
UK	95	115	n.a.
Sweden	6	6	n.a
New EU	11	16	n.a.
Other industrialized countries	217	228	n.a.
of which			
USA	141	149	n.a.
Canada	27	22	n.a.

Japan	15	17	n.a.
Switzerland	26	29	n.a.
Other countries	52	56	n.a.
Total	652	761	n.a
Total as percent of GDP	34.6	36.7	n.a.

(Exchange rate:) USD 1.00 equals Euro	0.88	0.80

Source: Bank of France

Stock of French FDI Abroad (Market value) (USD billions)

	2003	2004	2005
Total	1,080	1,262	1,577
Total as a % of GDP	65.2	62.4	73.9

Stock by Industrial Sector Destination (Book value)(USD billions)

	2003	2004	2005
Real estate	289	319	n.a.
Financial Intermediation	146	153	n.a.
Of which holdings	43	45	n.a.
Manufacturing	104	125	n.a.
Of which			
-Automobiles	25	29	n.a.
-Chemical industry	16	35	n.a.
Other	141	205	n.a.
Total	652	761	n.a.
(Exchange rate:) USD 1.00 equals Euro	0.88	0.80	

Source: Bank of France

Flows by country of destination (Market value) (USD billions)

	2003	2004	2005
EU (25)	37	50	86
EU (12)	23	36	64
of which			
Germany	6	10	0
Belgium	6	6	17
Italy	3	2	14
Netherlands	11	6	2
Other EU (15)	13	10	19
Of which			
UK	12	9	14
Denmark	0	0	5
Sweden	0	1	0
New EU members (1)	1	4	2
Other Industrialized Countries	16	4	23
Of which			
USA	6	2	1
Canada	1	-5	1
Japan	3	2	7
Switzerland	5	2	6
Other countries	1	3	6

Total	53	57	116
Total as a percent of GDP	2.8	2.7	5.4
(Exchange rate:)			
USD 1.00 equals Euro	0.88	0.80	0.80

Source: Bank of France
(1) Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Czech Republic, Slovakia, and Slovenia.

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